



# BANK OF PAPUA NEW GUINEA

## MONTHLY ECONOMIC REVIEW

Vol.6

No.06

Month Ended  
June 2019

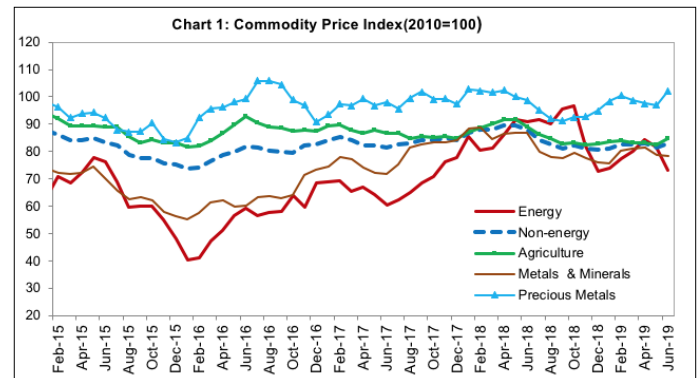
### Economic Activity

Global economic activity remained subdued in the second quarter of 2019 as the prolonged US-China trade tensions and uncertainties surrounding the Brexit continue to weigh on international trade and investment. In the US, growth continued at a slower pace partly reflecting a fall in business sentiment towards the end of the second quarter, while strong labour market and household spending continue to support growth. In the Euro area, growth slowed as manufacturing sector contracted in the second quarter, despite the strong growth in the service sector. In UK, growth remained depressed as the dominant service sector stagnated in the second quarter. In Japan, economic indicators showed signs of slowdown in growth momentum in the second quarter reflecting a decline in the manufacturing sector and lower exports due to a weak global demand. Among the emerging market economies, growth in China slowed further in the second quarter as domestic demand weakened and exports significantly dropped due to the trade war between the US and China. In India, economic activity moderated in the second quarter with continued weakness in consumer demand and fixed investment. In other major emerging market economies, there were signs of modest recovery as financial market pressures eased despite the weak global demand.

### Commodity Prices

International commodity price data published by the World Bank show declines across the major commodity price indices in June 2019. The energy price index recorded a notable decline of 10.70 percent in June, mainly reflecting substantial drop in crude oil and natural gas prices. The average crude oil price declined by 10.58 percent from US\$66.83 per barrel to US\$59.76 per barrel, and the natural gas price index declined by 11.22 percent. The non-energy price index declined by 1.82 percent, mainly reflecting a fall in the agriculture price index of 1.05 percent and the metal and mineral price index of 3.62 percent. The precious metal price index also decreased by 0.63

percent attributed to declines in the prices of gold and silver (Chart 1). The international prices for most of PNG's major export commodities declined, except for tea and logs.



Source: World Bank

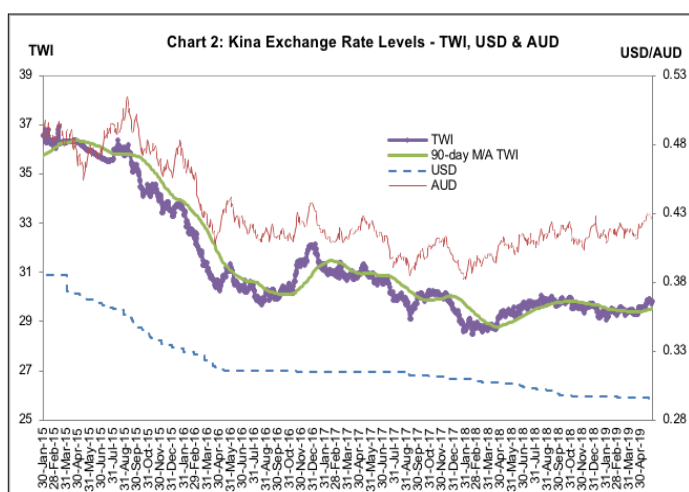
### Balance of Payments

Preliminary balance of payments data for the four months to April 2019 show an overall deficit of K390.2 million, compared to a deficit of K292.3 million in the corresponding period of 2018. This outcome was due to a deficit in the capital and financial account, which more than offset a surplus in the current account. The outcome in the current account was due to a trade surplus and net transfer receipts, combined with lower net service and income payments. The deficit in the capital and financial account reflected higher net outflows in direct and other investments reflecting equity withdrawals and build-up in foreign currency account balances of mineral companies. The level of gross foreign exchange reserves at the end of April 2019 was US\$2,061.0 (K6,847.0) million, sufficient for 6.7 months of total and 17.6 months of non-mineral import covers. As at 28th of June 2019, the level of gross foreign exchange reserves was US\$2,045.67 (K6,830.30) million.

### Exchange Rate

Over the month to 21<sup>st</sup> June 2019, the monthly average kina exchange rate depreciated against the US dollar (USD) by 10 basis points to US\$0.2955 from US\$0.2958, whilst it appreciated against the Australian dollar (AUD) by 18 basis points to AU\$0.4265 from

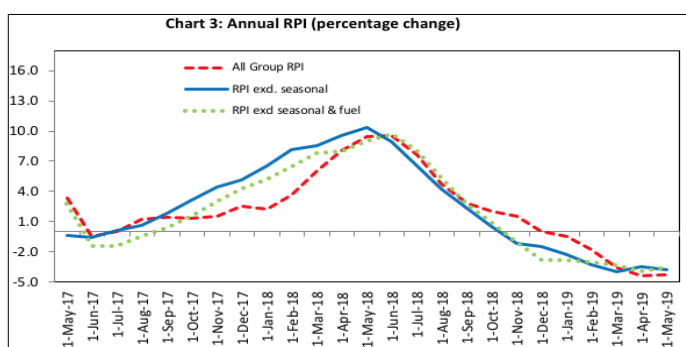
AU\$0.4258. The monthly average Trade Weighted Index (TWI) decreased by 0.27 percent to 29.64 over the month to 24th June 2019 compared to a decline of 1.03 percent in the previous month (Chart 2).



Source: Bank of PNG

## Inflation

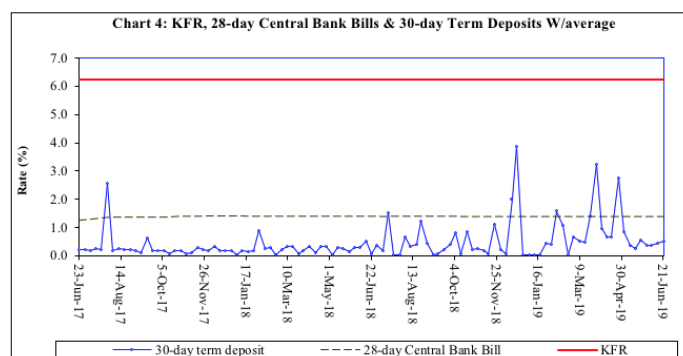
Annual Headline Retail Price Index (RPI) in May 2019 decreased by 4.5 percent, compared to an increase of 9.6 percent over the twelve months to May 2018. There were price declines in the 'Health', 'Alcoholic Beverages, Tobacco and Betelnut', 'Transport', and 'Communications' expenditure groups by 26.5 percent, 10.1 percent, 7.8 percent and 4.3 percent, respectively. These more than offset price increases in the 'Food' and Non-Alcoholic Beverages, 'Household equipment' and 'Miscellaneous' expenditure groups. Annual RPI ex-seasonal decreased by 3.8 percent compared to an increase of 10.3 percent over the same period in 2018, while annual RPI ex-seasonal and fuel decreased by 4.1 percent in May 2019, compared to an increase of 9.7 percent over the same period 2018. Quarterly headline RPI increased by 1.4 percent compared to a decline of 0.5 percent over the three months to February 2019, while the monthly RPI for May 2019 decreased by 2.7 percent compared to an increase of 0.6 percent in the previous month.



Source: Bank of PNG

## Domestic Interest Rates & Monetary Aggregates

Over the month to 21st June 2019, the Central Bank Bill (CBB) rates for the 28-day and 91-day terms were unchanged at 1.39 percent and 2.51 percent, respectively, while the 63-day term was offered twice at 2.32 percent. There was no auction for the other terms. At the Treasury bill auction, the rates for the 182-day and 273-day terms decreased slightly to 4.70 percent and 6.05 percent, respectively, from 4.72 percent and 6.06 percent, whilst the rate for the 364-day term increased to 6.83 percent from 6.77 percent. There was no auction for the other terms. During the same period, the weighted average interest rates on wholesale deposits above K500,000 showed mixed movements. The rates for the 60-day, 180-day and 364-day terms increased to 2.22 percent, 1.05 percent and 2.70 percent, respectively, from 0.38 percent, 0.91 percent and 2.42 percent. The rates for the 30-day, 90-day and 273-day terms decreased to 0.50 percent, 1.62 percent and 1.25 percent, respectively, from 0.55 percent, 3.43 percent and 2.41 percent (Chart 4). The rates reported are for end of period, and may not reflect the occasional high interest rates offered by commercial banks, during the month.



Source: Bank of PNG

Broad money supply declined by 5.3 percent over the year to May 2019, compared to a decline of 1.8 percent in the corresponding period of 2018. This was influenced by declines in net claims on the Central Government and credit to public non-financial corporations. Monetary base decreased by 4.7 percent in May 2019, compared to a decrease of 7.6 percent in the corresponding period of 2018. This was driven by a decline in liabilities of other depository corporations at the Central Bank, mainly commercial banks' Exchange Settlement Accounts.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors increased by K131.0 million to K13,487.9 million between December 2018 and 21st June 2019. This mainly reflected advances to the

service sector, as well as personal loans. Over the same period, the weekly average lending by banks increased by 2.6 percent to K13,437.2 million. The commercial bank deposits increased by K51.0 million to K20,408.9 million between December 2018 and 21st June 2019, reflecting placements by the service and finance sectors. Over the year to 21st June 2019,

the weekly average deposits decreased by 2.9 percent to K20,189.7 million.

## Monetary Policy

The Bank maintained its policy signalling rate, the Kina Facility Rate (KFR) at 6.25 percent for the month of June 2019.

| Papua New Guinea Key Economic Indicators                |   | May-18       | Jun-18   | Jul-18   | Aug-18   | Sep-18   | Oct-18   | Nov-18   | Dec-18   | Jan-19   | Feb-19   | Mar-19   | Apr-19   | May-19   | Jun-19   |
|---|---|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1. Consumer Price Index (CPI)                           | Headline                                      | -            | 4.5      | -        | -        | 4.8      | -        | -        | 4.8      | -        | -        | 4.5      | -        | -        | -        |
|   | Food  | -            | 0.4      | -        | -        | -0.2     | -        | -        | 2.8      | -        | -        | 3.4      | -        | -        | -        |
|   | Underlying                                    | -            | 6.5      | -        | -        | 6.2      | -        | -        | 5.2      | -        | -        | 4.5      | -        | -        | -        |
| 2. Retail Price Index (RPI) (YOY % Change)              | Headline                                      | 4.2          | -1.9     | -2.0     | 4.7      | 3.1      | 4.5      | 2.2      | -0.2     | 2.4      | -4.9     | -4.4     | -4.3     | -4.5     | na       |
|   | Ex-seasonal                                   | 3.6          | 3.1      | 3.2      | 2.7      | 2.6      | 2.1      | 1.9      | 0.8      | 1.1      | -3.8     | -4.0     | -3.5     | -3.8     | na       |
| 3. Exchange Rates (mid-rate, eop*)                      | USD   | 0.3065       | 0.3040   | 0.3030   | 0.3010   | 0.2990   | 0.2980   | 0.2970   | 0.2970   | 0.2970   | 0.2965   | 0.2965   | 0.2960   | 0.2955   | 0.2945   |
|   | AUD   | 0.4051       | 0.4115   | 0.4048   | 0.4146   | 0.4140   | 0.4202   | 0.4062   | 0.4208   | 0.4087   | 0.4152   | 0.4180   | 0.421    | 0.427    | 0.420    |
|   | GBP   | 0.2303       | 0.2319   | 0.2308   | 0.2312   | 0.2285   | 0.2345   | 0.2324   | 0.2341   | 0.2263   | 0.2229   | 0.2270   | 0.2289   | 0.2343   | 0.2325   |
|   | JPY   | 33.34        | 33.65    | 33.71    | 33.41    | 33.94    | 33.76    | 33.68    | 32.78    | 32.29    | 32.87    | 32.87    | 33.01    | 32.20    | 31.72    |
|   | NZD   | 0.4388       | 0.4487   | 0.4439   | 0.4526   | 0.4521   | 0.4550   | 0.4332   | 0.4425   | 0.4298   | 0.4332   | 0.4363   | 0.4448   | 0.4538   | 0.4394   |
| 4. Balance of Payments                                  | Current Account                               |              |          |          |          |          |          |          |          |          |          |          |          |          |          |
|   | Capital & Financial Account                   |              |          |          |          |          |          |          |          |          |          |          |          |          |          |
|   | Overall Balance                               |              |          |          |          |          |          |          |          |          |          |          |          |          |          |
|   | Foreign Exchange Reserve (eop, US\$ mill) (a) | 1,609.2      | 1,730.1  | 1,779.1  | 1,734.6  | 1,666.7  | 2,238.5  | 2,178.0  | 2,295.7  | 2,275.7  | 2,217.6  | 2,080.3  | 2,061.0  | 1,989.3  | 2,045.7  |
| 5. Liquidity (eop)                                      | Liquid Assets Margin to Deposit Ratio (%)     | 50.3         | 49.1     | 49.8     | 49.6     | 49.48    | 48.13    | 48.68    | 50.43    | 50.11    | 50.42    | 50.53    | 49.51    | 49.90    | 48.59    |
|   | Banks' Demand Deposits (K'bn)                 | 14.8         | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     | 14.8     |
| 6. Money and Credit (YOY % Change)                      | Broad Money                                   | -1.8         | -2.9     | -4.9     | -4.2     | -6.1     | -6.3     | -8.1     | -4.0     | -5.8     | -6.7     | -6.3     | -5.3     | -5.3     | -3.7     |
|   | Monetary Base                                 | -7.6         | -8.8     | -8.6     | -9.7     | -6.1     | -1.3     | -5.4     | -1.9     | 4.3      | 2.0      | -1.2     | -2.6     | -4.7     | -2.0     |
|   | Private Sector Credit                         | 6.3          | 7.0      | 6.5      | 8.3      | 8.4      | 9.9      | 9.5      | 7.0      | 4.2      | 6.7      | 5.9      | 6.3      | 3.7      | 2.4      |
| 7. Interest Rates (% pa) (monthly weighted average) (b) | Kina Facility Rate                            | 6.25         | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     | 6.25     |
|   | Central Bank Bill (28 day)                    | 1.40         | 1.40     | 1.40     | 1.40     | 1.4      | 1.39     | 1.39     | 1.39     | 1.39     | 1.39     | 1.39     | 1.39     | 1.39     | 1.39     |
|   | Commercial bank Term Deposit (30 day)         | 0.15         | 0.36     | 0.05     | 0.46     | 0.42     | 0.22     | 0.21     | 0.05     | 0.43     | 0.03     | 3.23     | 2.77     | 0.35     | 2.18     |
|   | Government Treasury Bill (364 day)            | 8.04         | 8.05     | 8.04     | 8.05     | 8.07     | 8.06     | 8.03     | 7.93     | 7.52     | 6.64     | 6.60     | 6.66     | 6.80     | 6.87     |
|   | 3-year Incribed stock Rate                    | 9.48         | 9.5      | 9.52     | 9.54     | 9.53     | 9.54     | 9.54     | -        | -        | -        | -        | -        | -        | -        |
|   | 16-year Incribed stock Rate (> 10 years)      | -            | -        | -        | 12.58    | 12.58    | 12.58    | 12.58    | 12.58    | 12.58    | 12.58    | 12.58    | 12.58    | 13.58    | -        |
|   | 4-year Incribed stock Rate                    | 10.48        | 10.48    | -        | -        | -        | 10.5     | 10.5     | -        | -        | -        | -        | -        | -        | -        |
|   | 7-year Incribed stock Rate                    | -            | 11.54    | 11.54    | 11.54    | -        | 11.54    | 11.47    | -        | -        | -        | -        | -        | -        | -        |
|   | 10-year Incribed stock Rate                   | 12.57        | 12.58    | 12.58    | 12.58    | 12.58    | 12.58    | 12.48    | -        | -        | -        | -        | -        | -        | -        |
|   | 8. Commodity Prices (monthly average)(c)      | Oil (\$/bbl) | 73.4     | 72.0     | 72.7     | 71.1     | 75.4     | 76.7     | 62.3     | 54.0     | 56.6     | 61.1     | 63.8     | 68.6     | 66.8     |
| LNG (\$/mmbtu) (d)                                      |   | 9.4          | 10.4     | 10.4     | 10.9     | 11.3     | 11.7     | 11.7     | 12.0     | 12.0     | 11.8     | 11.3     | 10.3     | 9.9      | 9.9      |
| Gold (\$/troy oz)                                       |   | 1,309.6      | 1,280.9  | 1,240.1  | 1,202.6  | 1,198.5  | 1,214.2  | 1,219.9  | 1,251.8  | 1,291.9  | 1,320.4  | 1,300.4  | 1,286.1  | 1,283.5  | 1,359.0  |
| Copper (\$/mt)  |   | 6,820.1      | 6,961.2  | 6,252.6  | 6,047.0  | 6,019.6  | 6,224.2  | 6,195.5  | 6,088.5  | 5,928.4  | 6,299.0  | 6,444.3  | 6,447.5  | 6,043.8  | 5,868.0  |
| Nickel (\$/tonne)                                       |   | 14,361.1     | 15,105.1 | 13,772.1 | 13,419.3 | 12,523.9 | 12,419.5 | 11,198.0 | 10,832.3 | 11,416.3 | 12,669.4 | 13,051.3 | 12,840.0 | 12,005.6 | 11,967.3 |
| Cobalt (\$/tonne)                                       |   | 90,105.0     | 81,197.5 | 70,787.5 | 63,425.0 | 62,275.0 | 58,987.8 | 53,450.0 | 54,900.0 | 38,678.3 | 31,487.5 | 30,772.5 | 33,612.5 | 34,240.0 | 28,055.0 |
| Coffee (\$/tonne) (e)                                   |   | 3,121.7      | 3,075.4  | 2,937.6  | 2,821.9  | 2,700.6  | 3,097.5  | 3,141.6  | 2,877.0  | 2,918.9  | 2,921.1  | 2,866.0  | 2,866.0  | 2,821.9  | 3,031.3  |
| Cocoa (\$/tonne) (e)                                    |   | 2,657.6      | 2,408.2  | 2,371.8  | 2,165.6  | 2,194.9  | 2,123.3  | 2,178.6  | 2,200.8  | 2,267.8  | 2,260.9  | 2,200.1  | 2,329.2  | 2,319.1  | 2,409.3  |
| Palm Oil (\$/tonne)                                     |   | 681.9        | 672.0    | 627.8    | 598.6    | 590.5    | 573.3    | 571.0    | 570.0    | 552.4    | 588.3    | 589.0    | 575.0    | 552.3    | 540.0    |

### Notes:

- p provisional.
- r revised.
- \* end of period

Authorised for release by: **Loi M. Bakani CMG**  
Governor